

**SUMMARY OF THE MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM
INVESTMENT COMMITTEE**

HELD ON

**Monday, April 13, 2009
3:30 p.m.**

The Investment Committee (IC) of the Arizona State Retirement System (ASRS) met at 3300 N. Central Avenue, 14th Floor Conference Room, Phoenix, Arizona 85012. Mr. Tom Connelly, Chair of the IC, called the meeting to order at 3:34 p.m., Arizona Time.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Thomas Connelly, Chair
 Mr. Christopher Harris, Vice-chair
 Mr. Lawrence Trachtenberg
 Mr. James McLaughlin

A quorum was present.

2. Approval of the Minutes of the March 20, 2009, Regular Session IC Meeting

Motion: Mr. Christopher Harris moved the minutes of the March 20, 2009, Regular Session IC meeting be adopted as presented. Mr. Lawrence Trachtenberg seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

Mr. James McLaughlin arrived at 3:36 p.m.

3. Possible Extension of Postponing the Approval of Future New Private Market Investment Commitments until June 30, 2009

Mr. Thomas Connelly introduced the topic. Mr. Paul Matson, Director, said he and Mr. Gary R. Dokes, Chief Investment Officer (CIO), intend to postpone the approval of new commitments to private market investments from March 31, 2009 to June 30, 2009, unless an overriding investment opportunity exception exists. This is an extension of the decision made in January 2009, and applies to private markets investments with "locked-up" capital investments structures (e.g. general partner (GP)/limited partner (LP) construct) and primarily pertains to private equity, private real estate and opportunistic investment asset

classes. Additionally, the Director and CIO will notify the IC in the event this directive will be rescinded or of plans to extend beyond June 30, 2009.

4. Presentation, Discussion, and Appropriate Action Regarding ASRS Asset Allocation Policy Bands

Mr. Dokes presented regarding the ASRS Asset Allocation Policy bands. Broadening the policy bands from +/- 5% to +/- 10% is intended to mitigate the effects of the following: 1) not being forced to make rebalancing decisions inconsistent with ASRS relative value perspective, and 2) to provide for the ability to make active relative value asset class shifts within a broader allowable policy range.

Discussion ensued among the IC regarding the proposed asset allocation bands. Mr. Dave Byers joined the IC meeting as an observer. Mr. Allan Martin, Partner, New England Pension Consultants (NEPC), said using scenarios in addition to bands could be a valuable tool, as well as risk budgeting and revisiting long term targets.

Motion: Mr. Trachtenberg moved to recommend the following to the Board for approval:

Asset Allocation Policy Schematic Proposed

Proposed Policy						
Investment Category	Target	Range	Passive	Benchmark		
US Equity						
Large Cap	31%	26 - 36%	65 ±10	S&P 500		
Mid Cap	7	5 - 9	45 ±20	S&P 400		
Small Cap	7	5 - 9	30 ±20	S&P 600		
Sub-Total	45	35 - 55				
International Equity	18	8 - 28	10 ±5	MSCI ACWI ex. US		
US Fixed Income	26	16 - 36	55 ±20	Lehman Aggregate		
Real Estate	6	4 - 8	NA	NCREIF + 1%		
Private Equity	5	3 - 7	NA	Russell 3000 + 3%		
Opportunistic Asset Classes	0	0 - 5	NA	Asset Class Specific (TBD)		
TOTAL	100					
Global TAA	10	8 - 12	NA	ASRS Total Fund Benchmark		
Expected Return	8.30%					
Standard Deviation	11.88%					
Sharpe Ratio	0.38					
Absolute Return Strategies	0	0 - 5	NA	> 0%		
(Assumes: Maximum 5% Allocation, Volatility 3% Relative to Cash, Return: Cash + 3%, IR of 1.0)						
Expected Return	8.43%					
Standard Deviation	11.96%					
Sharpe Ratio	0.39					
Total Fund Benchmark:	31% Large Cap (S&P 500), 7% Mid Cap (S&P 400), 7% Small Cap (S&P 600), 18% Intl Equity (ACWI xUS)					
	26% Fixed Income (Leh. Agg.), 6% Real Estate (NCREIF + 1%), 5% Private Equity (Russell 3000 + 3%)					
Proposed Policy Band Changes in Red						

Mr. James McLaughlin seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

5. Presentation, Discussion, and Appropriate Action Regarding Potential Tactical Investment Modifications with Respect to ASRS Equity Exposure in Europe, other Non-U.S. Regions and the U.S. Equity Market

Mr. Thomas Connelly introduced the topic. Mr. Dokes and Mr. David Underwood, Equity Portfolio Manager, gave the Investment Management Division's perspective on global economies, capital markets perspectives, and recommendations for discussion and consideration.

Mr. Terry Dennison, Worldwide Partner, Mercer Investment Consulting, Inc., presented general thoughts on the current economy as well as Mercer's view of the European and Asian markets.

Although no action was required by the IC, Mr. Dokes described the intention of the IMD to reduce not only European exposure, but some additional international exposure. This action is based upon IMD house views, which are consistent with the viewpoints of both Mercer and NEPC, and within the existing allocation to equity.

Mr. Dokes noted that the Investment Management Division (IMD) Beliefs are staff beliefs but could also be considered ASRS beliefs. Discussion ensued regarding staff views and ASRS views. Mr. Matson said that irrespective, staff would utilize input of the IC and consultants when determining ASRS investment house views.

6. Presentation, Discussion, and Appropriate Action Regarding the ASRS Global Tactical Asset Allocation (GTAA) Program

Mr. Thomas Connelly introduced the topic. Mr. Dokes gave background on the topic and Mr. Dennison presented a synopsis of the ASRS GTAA program from 2003 to date. Over the second and third quarters of 2008, Mellon Capital implemented four model enhancements. The firm also brought in a new head of currency and multi-strategy research, and a member of that team departed. Although in the long term these changes may put Mellon Cap's GTAA product on a more solid footing, the IMD and Mercer have continued concerns regarding Mellon's performance and investment process. Mellon Capital's simulated portfolio (ASRS specific mandate) underperformed ASRS Total Fund benchmark by 14.8% in 2008 and 6.5% in 2007. Major performance detractors for 2007-2008 were 1) an overweight stocks vs. bonds, and 2) various country currency allocation bets. All of Mellon's "alpha drivers" (Global Stock/Bond, Equity Country, Bond Country and Currency Allocation) detracted from performance in six of the last twelve months. Though too early to determine if model enhancements will improve long-term performance and mitigate risk, staff and Mercer remain skeptical regarding Mellon Cap's ability to add value relative to ASRS' Total Fund policy benchmark.

Mr. Matson said there are no ASRS funds at risk as the Mellon Capital mandate is currently an unfunded GTAA mandate. Mercer and NEPC concur with staff regarding the lack of confidence in Mellon Capital's ability to provide alpha over ASRS Total Fund benchmark returns. Staff and Mercer recommend the Opportunistic Investment Committee (OIC) consider the following, after discussion with the IC:

- Rescind the approval to fund Mellon Capital's GTAA mandate with the ASRS.
- Reclassify the BGI funds, which are earmarked at BGI as a funding source for Mellon Capital, to their respective U.S. equity, non-U.S. equity and fixed income index portfolios.
- Not initiate a search for a replacement GTAA manager at this time.

Mr. Dokes then offered a quick review of the Bridgewater All Weather Portfolio and its current configuration in "Safe Portfolio Mode" for the IC, along with a brief discussion of staff's reasoning that, while being one mechanism to implement a tactical bearish equity outlook, the All Weather Portfolio at this point does not accurately reflect staff's bifurcated relative value view of U.S. versus non-U.S. equities.

7. Regarding the ASRS Investment Management Governance Structure, Decision-Making Processes, and Investment Committee Charter

Mr. Matson facilitated a discussion regarding the Asset Class Committee decision-making protocol, engagement of ASRS Investment Consultants, the Securities Litigation Strategic Policy, and proposed revisions to the IC Charter.

It was stated that the CIO or Director might hire a consultant to perform research, for example, if there were not enough in-house resources to do so. The subjects of what roles the various consultants used by the ASRS would have with each asset class committee, and the method of retaining and terminating asset class consultants were then discussed briefly. The IC agreed that no vote was required.

Staff will review the Board Governance Handbook with regard to any possible revisions that may need to be made as a result of revision of the Securities Litigation Strategic Policy.

Motion: Mr. Trachtenberg moved to recommend that the Securities Litigation Strategic Policy attached to the IC packet be forwarded to the Board for approval in addition to the ASRS investment-related governance policy changes as discussed by the IC.

Mr. Harris seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

8. Presentation, Discussion, and Appropriate Action Regarding Corporate Governance and Reform Activities Being Taken or Being Considered by Public Pension Funds

The IC postponed this topic, which may be presented at a future meeting.

9. Presentation, Discussion, and Appropriate Action Regarding Asset Class Committees Activity Updates

Mr. Dokes provided the IC with an update regarding the activities that have occurred and are anticipated to occur with regards to the ASRS Private Equity Committee (PEC), Real Estate Committee (REC), and Opportunistic Investment Committee (OIC) and Public Equity/Fixed Income Markets Committee (PMC).

10. Call to the Public

No members of the public requested to speak to the IC.

The meeting adjourned at 6:42 p.m.

Respectfully submitted,

Lisa Hanneman, Secretary Date

Gary R. Dokes, Chief Investment Officer Date